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To My Clients and Friends:

MORTGAGE INTEREST DEDUCTION

The *Tax Cuts and Jobs Act* changed the tax deductibility for mortgage and home equity interest.

Beginning January 1, 2018, the limitation for interest on new home acquisition indebtedness has been *reduced to \$750,000* and *interest on home equity indebtedness will not be tax deductible unless it can be recharacterized as investment or connected with a business activity*. The new limit applies for qualified home acquisition indebtedness obtained *on or after December 15, 2017*.

If you *refinance* your qualified home acquisition indebtedness, the interest on the indebtedness will continue to be tax deductible under the old rules (up to \$1,000,000) provided the amount of the new *refinanced* indebtedness does not exceed the old qualified home acquisition indebtedness.

If you have any home equity indebtedness, you should take steps to liquidate it as soon as possible since the interest is no longer tax deductible. In addition, if you are considering a new home equity loan, you should only proceed with the understanding that any interest will *most likely* not be tax deductible.

As a refresher, the term *qualified home acquisition indebtedness* is any indebtedness incurred in the purchase (acquisition) of a personal residence or designated 2nd residence and expenditures incurred in connection with making improvements to a personal residence or designated 2nd residence. Once labeled qualified home acquisition indebtedness, it retains this classification on subsequent refinancing. You should keep in mind that when the principal on the home indebtedness is reduced, it will reduce your qualified home acquisition indebtedness.

If you would like to discuss your home mortgage interest situation, please contact me.

Very truly yours,

Charles E. Solak

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